HermanMiller

May 1, 2007

Honorable Tax Policy Committee Chair, Rep Bieda, & Other Distinguished Committee Members

Regarding House Bills HB4367 – Proposed Substitute H-1, et al

I am the Manager of State Tax Planning and Audits for Herman Miller, Inc. Herman Miller, Inc. is one of the largest office furniture manufacturers in the world. My employer has invested the vast majority of its assets right here in Western Michigan, and has over 4,500 employees working every day in Michigan. Our office furniture products are sold for the most part outside of Michigan in every state in the US, as well as around the world through our network of foreign affiliates and dealers.

I have seen first hand the various state and local tax structures that are used by other states to raise revenue for their state's needed services. I have constantly been torn between frustration and admiration as I review tax filings that are made by my employer in all of these various other states. Most states have very cleverly designed their state business tax policies to reward their home team manufacturers, while shifting the revenue burdens needed to pay for state services by taxing the other guy. Unfortunately the other guy in the minds of the other states is Herman Miller and other out of state businesses. You might be asking why the other states engage in that sort of behavior. I might ask why Michigan would not, and has not choosen to engage in that behavior.

The very best type of person or organization to tax is the "other guy". Why shouldn't a state choose to shift large portions of its tax burden to those businesses that view their state as nothing more than simply a market state? A market state that is a good place to dump its products that were made in some other state, or for that matter perhaps even out-sourced to more exotic places like Mexico or China. These types of businesses do not invest in the market state other than perhaps having a small sales force with which to market its products.

In the mean time these other states look at their remaining and unfortunately dwindling supply of manufacturers still located within their state, and realize the true value of those home team manufacturers. These home manufacturers are the one type of business that can build goods in their state, creating large quantities of higher paying jobs with good benefits, and then market those goods for the most part outside of that state. The money generated from those sales is "imported" back into the state of manufacture to meet their payrolls each week.

These other states have rather wisely decided not to impose a disproportionate share of their state's revenue needs on those business that are specially situated to be able to import funds for meeting the weekly payrolls of these higher paying jobs with good benefits. What steps have these other states taken that I both despise when reviewing other state tax filings for my employer, and also am envious. Envious of the state taxing structure that I thought Michigan should some time any day now wake up and recognize as equally important for its home team manufacturers?

1. First and foremost over half of the states in the US and virtually all of the Great Lakes area states have either eliminated all personal property (P/P) taxes or eliminated P/P taxes on manufacturing equipment. The very self evident reason is what type of

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business has the lion's portion of personal property? It is the manufacturers that require the hundreds of millions or even billions of dollars invested in their factories to produce their products. It is not retailing or service industries that have spent those large amounts of needed capital. Virtually everyone of the Great Lakes states have already eliminated P/P taxes to benefit manufacturers. Yet Michigan eliminated personal property only for banks and financial institutions that are not even facing the enormous global competition that manufacturer are facing each day. Rather Michigan imposes the third highest property tax rate in the country on all of the personal property so vital to the manufacturing industry.

This proposed legislation will offer almost a seventy-five percent reduction in the burden of this archaic type of anti-manufacturing taxation. Back when I was in school, which admittedly was long ago now, a 75% was not a score that made you proud, or even "delighted" to show to your parents. However, a score of zero simply does demonstrate that you are not even interested in attending the school.

2. Second this proposed legislation has a 100% sales factor. Apportioning is simply a method of deciding what share of your total income derived from your total worldwide sales belongs to any given state. Over twenty states now use or have enacted a very simple 100% sales factor. This methodology was originally started in Iowa and was reviewed and upheld by the US Supreme Court long ago as a methodology that simply rewards in-state businesses, and was a logical goal far any state. This methodology of apportionment is both rewarding and damaging depending on the type of business that you are in a given state. If my employer is viewing state X as simply a market state that we may have some local sales personnel, and nothing more, it is extremely damaging and causes my employer to pay an unusually large and somewhat disproportionate tax burden in that state. If it is your home state where you have invested heavily in both capital (equipment) and personnel (jobs) it is extremely beneficial to have a 100% sales factor. It simply amazes me that Michigan does yet have a 100% sales factor. Once again the benefit or detriment of this apportionment methodology falls primarily in the lap of manufacturers. This proposed legislation will <u>finally</u> fix the one piece of this problem that is within this state's ability to resolve. Unfortunately the other half is out of the control of those in Michigan and my employer is simply on the wrong end of things in our market states.

3. This proposed legislation will finally require the filing of combined Michigan tax returns. This means that all separate legal entities belonging to a controlled group owned by a parent company will be required to file and pay taxes on a combined or unitary basis. Many states either require the original filing or submission of combined (or unitary) tax returns. Most other states have authority to require audit adjustments to get to a combined filing status if deemed appropriate. Why do other states desire a combined tax return? It is simply all to easy for companies desiring to minimize their state tax liability to play the shell game. The income of a company is moved off into royalty or intangible holding companies, sales companies, etc all in an effort to legally avoid state taxes. In an effort to keep everyone "honest", states have used combination rules for many years now. In fact thirty-four states either have mandatory combined (unitary) filing methodologies, or have pending legislation that would provide for combined and unitary filings. For my employer, and most Michigan based businesses, this should not be an issue since most of our separate legal entities are already filing and paying taxes in Michigan. However there are many large out of state, multi-national, companies that

have established sales companies that do all of their selling activities in their market states, including Michigan. While these sales companies are paying taxes in Michigan, perhaps as much as ninety percent of their income escapes taxation in Michigan. In many cases these tax savings occur "naturally" rather than being contrived, just due to how their companies were started, and other subsidiaries were acquired over the years. In either case, the out-state businesses are the ones that benefit from not having a combined filing requirement here in Michigan.

In those states that I both despise and envy the most they all require the filing of combined returns. Each of these states cause each and every one of our controlled legal entities to pay taxes in their state regardless of whether the legal entity does any kind of activity in their state that would ordinarily be the determining point as to whether the income of that entity can be taxed within that particular state. These combined authority states simply say that income cannot be fairly measured and determined unless you prepare a combined (unitary) tax return. They are entirely non judgmental in whether your tax savings would have came about by tax planning or just as the nature of how your company evolved and came to be what it is today. These combined states just simply legally require that everyone must file a combined return to be fair to everyone.

In the process of preparing combined out-state tax returns, the companies that view state X as simply a market state often pay two, three or even say five times more in state taxes than they would without combination methodologies. In most cases the tax results from combination in your home state are often not very detrimental, in fact in many cases the final results are actually even somewhat favorable, and combination is often desired by many taxpayers in their home states. Regardless of which end of that spectrum you are on it is hard to argue with the fairness of combination, in that equally situated businesses will be required to pay the same amount of taxes.

4. This proposed legislation will allow large tax credits available for all businesses. These credits are unconditional and do not require pre-approval of any kind. They are simply inherent in the actual filing of the tax return itself. They are available to virtually every type of business since they are measured on different bases. For capital intensive companies they are valued most for their rewarding of investments in machinery and equipment. For retailers, wholesalers, service providers and labor intensive manufacturing they are most valued for being measured by wages paid to their employees. For new start-up businesses, and those that are heavily involved in new research and experimentation they are measured by qualifying R & D expenditures. Thus there is something in here for every kind of business.

   These credits are available to both the home team businesses based here in Michigan as well as the out-state businesses that look at Michigan as simply a market state. Of course since these market state businesses have very little credit base they will receive very little in the form of tax credits.

5. Existing MEGA, Brownfield, and Renaissance Tax credits/abatements are still being honored. A deal is a deal, and many companies have based their decisions to locate or expand within Michigan based upon the rewards that were granted to these companies in the past. Continuing to honor these previously awarded tax credits is not only the legally but the fair thing to do at this point.

In summary Michigan based businesses are finally seeing some form of meaningful P/P tax relief, and a 100% sales factor. How is it that all of this "rewarding" of the home team can be achieved, while still replacing the revenues that had been raised by the old SBT? The answer is simply that Michigan will have a mandatory combination (unitary) provision that will bring in a great deal of new tax revenue from - for the most part out-state businesses that may have been taking maximum advantage of state tax "loopholes" to achieve their advantage. Secondly, this legislation has set fairly high tax rates against a large combined (unitary) income tax base, and combined (unitary) net worth tax. The proceeds of these taxes act to allow for the P/P tax relief and other direct tax credits. Virtually everyone of these provisions act to lower taxes on Michigan based businesses, while at the same time act to increase taxes on out-state businesses. That to me is the real underlying reason to enact this legislation. Michigan will finally be paying back other states for enacting their laws in such a way as to maximize their state taxes on Michigan based businesses. Increasing the costs of operations for competitors of Michigan made goods is a significant and delightful secondary consequence of the first and primary goal of giving tax relief to the home team, and then still being able to fund the deep black void left in the budget from the elimination of the Michigan SBT.

The current situation of having repealed the Michigan Single Business Tax, and not having a replacement business tax must end as quickly as possible. I have watched plans coming and going now for closing on two years now. The plan that is before this committee today is by far and away the **Ultimate Tax Plan**. I would strongly urge your passing this legislation as quickly as possible.

Sincerely

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